

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2003-277-S – ORDER NO. 2004-101
MARCH 11, 2004

IN RE: Application of J. C. Cox Utilities, Inc. for Approval) ORDER
of a New Schedule of Rates and Charges for Sewerage) RULING ON
Service Provided to Its Customers in Anderson County,) APPLICATION
South Carolina.) FOR INCREASE
) IN RATES

I. INTRODUCTION

This matter is before the Public Service Commission of South Carolina (the “Commission”) on the Application of J. C. Cox Utilities, Inc. (“Cox” or the “Company”), filed on September 11, 2003, seeking approval of a new schedule of rates and charges for sewer service that Cox provides to its customers within its authorized service area in Anderson County, South Carolina. The Application was filed pursuant to S.C. Code Ann. Section 58-5-210 *et seq.* (1976), as amended, and 26 S.C. Code Regs. 103-821 (1976).

By letter dated October 23, 2003, the Commission’s Deputy Executive Director instructed Cox to publish a prepared Notice of Filing, one time, in newspapers of general circulation in the areas affected by Cox’s Application. The Notice of Filing indicated the nature of the Application and advised all interested persons desiring to participate in the scheduled proceedings of the manner and time in which to file appropriate pleadings for inclusion in the proceedings. In the letter of October 23, 2003, the Deputy Executive Director also instructed Cox to notify directly, by U.S. Mail, each customer affected by the Application by mailing each customer a copy of the Notice of Filing. Cox furnished

the Commission with an Affidavit of Publication demonstrating that the Notice of Filing had been duly published and with a letter in which Cox certified that it had complied with the instruction of the Deputy Executive Director to mail a copy of the Notice of Filing to all customers affected by the Application. In response to the Notice of Filing, Petitions to Intervene were filed on behalf of the Consumer Advocate for the State of South Carolina (the “Consumer Advocate”) and Dora Aliene Wilson, a customer of Cox.

S.C. Code Ann. Section 58-3-95 (Supp. 2003) provides in relevant part that “[w]henver a corporation or person furnishing ... water, sewerage collection, sewerage disposal, ... files a schedule setting forth proposed changes with the Commission pursuant to the procedures prescribed in this title, a panel of three members of the Commission shall hear and rule on the proposed changes.” Pursuant to S.C. Code Ann §58-3-95 (Supp. 2003), a panel of three Commissioners was appointed to hear and rule on Cox’s Application. The panel consisted of Vice Chairman Mitchell, presiding, Commissioner Moseley, and Commissioner Theodore.

On January 15, 2004, a public hearing concerning the matters asserted in Cox’s Application was held in the Commission’s hearing room located at Synergy Business Park, 101 Executive Center Drive – Saluda Building, Columbia, South Carolina. During the proceedings, Cox was represented by Scott Elliott, Esquire and Charles Cook, Esquire. The Consumer Advocate was represented by Elliott F. Elam, Jr., Esquire. Intervenor Dora Aliene Wilson was represented by Chris B. Roberts, Esquire. The Commission Staff (“Staff”) was represented by F. David Butler, General Counsel.

At the hearing, one customer, James Dickson, testified as a public witness in opposition to Cox's requested rates. Cox presented the testimony of Robert J. Ellison, President of J.C. Cox Utilities, Inc. Intervenor Dora Aliene Wilson testified on her own behalf. The Commission Staff presented the testimony of Lee Proctor of the South Carolina Department of Health and Environmental Control ("DHEC"); Phillip Clardy, Mayor of Williamston; Steve W. Gunter, an Auditor for the Public Service Commission of South Carolina; and William O. Richardson, Chief of the Water and Wastewater area of the Commission's Utilities Department. Witnesses Proctor and Clardy appeared pursuant to subpoenas requested by the Commission Staff. The Consumer Advocate did not present a witness.

In considering the Application of Cox, the Commission must consider competing interests. The interests of the consumers to receive quality service and a quality product at a reasonable rate compete with the interests of the provider to have the opportunity to earn a fair rate of return. Regulation, as it has developed in the United States, is concerned with rates, service, [and] safety Charles F. Phillips, Jr., *The Regulation of Public Utilities*, (1993) at 171. Rate regulation has two aspects: control of the rate level (earnings) and control of the rate structure (prices). *Id.* As to the rate level, public utilities are entitled to cover all allowable operating costs and to have the opportunity to earn a "fair" rate of return. *Id.* Collectively, these items comprise a company's total revenue requirements. *Id.* As to the rate structure, public utilities are permitted to establish rates that, at a minimum, will cover their revenue requirements. *Id.* at 171-72. Such rates must be "just and reasonable," with no "undue" discrimination. *Id.* at 172.

Thus, in considering the Application of Cox, the Commission must give due consideration to Cox's total revenue requirements, comprised of allowable operating costs and the opportunity to earn a fair return. To this end, the Commission will review the operating revenues and operating expenses of Cox and will endeavor to establish adequate and reasonable levels of revenues and expenses. Further, the Commission will consider a fair return for Cox based upon the record before it. Should the Commission's determination show that rates should be increased, the Commission will then design rates that will meet the revenue requirements of Cox but that are also just and reasonable and free of undue discrimination.

II. FINDINGS OF FACT

1. Cox is a sewer utility providing sewer service in its assigned service area within South Carolina, and its operations in South Carolina are subject to the jurisdiction of the Commission, pursuant to S.C. Code Ann. § 58-5-10, *et seq.* (1976), as amended.

2. The appropriate test year period for the purposes of this proceeding is the twelve-month period ending December 31, 2002.

3. The Commission will use operating margin as a guide in determining the lawfulness of the Company's rates and in the fixing of just and reasonable rates.

4. By its Application, Cox is seeking an increase in its rates and charges for sewer service which results in \$26,916 of additional revenues to Cox.

5. The appropriate operating revenues for Cox for the test year, under present rates and after accounting and pro forma adjustments, are \$6,131.

6. The appropriate operating expenses for Cox for the test year, under present rates and after accounting and pro forma adjustments and adjustments for known and measurable out-of test-year occurrences, are \$26,761.

7. The operating margin for the test year under present rates and after accounting and pro forma adjustments approved herein is (380.98)%.

8. Based on the operating margin for the test year after accounting and pro forma adjustments, we find that Cox has demonstrated the need for an increase in rates.

9. When applied to as adjusted test year operations, the rates requested and proposed by Cox result in an operating margin of 8.16%

10. The Commission finds that an 8.16% operating margin is not unreasonable for a utility the size of Cox; however, the Commission also finds that the per customer increase to obtain the 8.16% operating margin is quite large and constitutes a tremendous percentage increase over present rates. The Commission further finds that in order to lessen the impact of a one-time rate increase that it is appropriate to phase-in the rate increase.

11. The Commission finds that the rate increase should be phased-in in three installments over a three year period, provided that Cox meets certain milestones in achieving compliance with DHEC's requirements.

12. To achieve an ultimate operating margin of 8.16% following a three part phase-in of rates, the Commission approves an increase of rates and operating margins as follows: (1) the first part of the phase-in shall be an increase in rates for sewer service of \$15.65 per month with an approved operating margin of (139.61)%; (2) the second part

of the phase-in shall be an additional increase in rates of sewer service of \$22.66 per month with an approved operating margin of (39.01)%; and the third part of the phase-in shall be an additional increase in rates for sewer service of \$29.66 per month with an approved operating margin of 8.16%.

13. The income requirement for Cox, under operating margin methodology found appropriate in this Order and using the adjusted operating revenues and operating expenses approved herein, is \$12,328 for the opportunity to achieve the (139.61)% operating margin found reasonable for the first year of the phase-in of rates; \$21,301 for the opportunity to achieve the (39.01)% operating margin found reasonable for the second year of the phase-in; and \$33,047 for the opportunity to achieve the 8.16% operating margin found reasonable for the final part of the phase-in.

14. In order for Cox to have the opportunity to earn the herein approved operating margins under the phase-in of the rates, Cox must be allowed additional revenues of \$6,197 under the first part of the phase-in; additional revenues of \$15,170 under the second part of the phase-in; and \$26,916 under the third part of the phase-in.

15. The appropriate operating margin for Cox based upon the herein approved adjustments and rates is (139.61)% for the first part of the phase-in, (39.01)% for the second part of the phase-in, and 8.16% for the third, and last, part of the phase-in.

16. The Commission finds that Cox should begin maintaining its books and records in accordance with the NARUC Uniform System of Accounts for Class C Sewer Utilities, as adopted by this Commission.

III. EVIDENCE TO JUSTIFY FINDINGS OF FACT

In this section, the Commission sets forth the evidence relied upon in making its Findings of Fact as set forth in Section II of this Order.

1. EVIDENCE FOR FINDING OF FACT NO. 1

The evidence supporting this finding concerning the Company's business and legal status is contained in the Application filed by Cox, in the testimony of Cox witness Ellison, and in prior Commission Orders in the docket files of the Commission, of which the Commission takes judicial notice. By the Application, Cox admits that it is a public utility within the meaning of S.C. Code Ann. Section 58-5-10(3) (Supp. 2003) and that it is providing sewerage service to thirty-three (33) residential customers under a schedule of rates approved by this Commission in Order No. 87-421, Docket No. 85-448-S, dated April 17, 1987. Application at ¶ 1 and ¶ 5. In addition, Mr. Ellison testified that he purchased the shares of Cox in June, 1996, from Cox's previous owner, J.C. Cox, Jr. Ellison, Prefiled Testimony, p. 1, ll. 14 – 18. This finding of fact is essentially informational, procedural, and jurisdictional in nature, and the matters which it involves are not contested by any party.

2. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 2

The evidence supporting this finding, that the appropriate test year period for the purposes of this proceeding is the twelve-month period ending December 31, 2002, is contained in the Application filed by Cox and in the testimony and exhibits of the parties' witnesses.

On September 11, 2003, Cox filed its Application requesting approval of rate schedules designed to produce an increase in gross revenues of \$26,916 if connecting to the Town of Williamston for treatment services or to operate existing facilities. Cox also filed rate schedules designed to produce an increase in gross revenues of \$82,443 to construct or upgrade its wastewater treatment facility. Cox's Application was based on a test period consisting of the twelve-months ending December 31, 2002. *See* Application ¶9 and Exhibit 3. The Staff witnesses likewise offered their evidence generally within the context of the same test period. *See* Hearing Exhibit No. 3.

A fundamental principle of the ratemaking process is the establishment of a test year period. In *Heater of Seabrook v. Public Service Commission of South Carolina*, 324 S.C. 56, 478 S.E.2d 826 (1996), the Supreme Court of South Carolina noted that "[t]he 'test year' concept is very important in the rate-setting process. In order to determine what a utility's expenses and revenues are for purposes of determining the reasonableness of a rate, one must select a 'test year' for the measurement of the expenses and revenues." 478 S.E.2d 828 n.1 (1996). The test year is established to provide a basis for making the most accurate forecast of the utility's rate base, reserves, and expenses in the near future when the prescribed rates are in effect. *Porter v. South Carolina Public Service Commission*, 328 S.C. 222, 493 S.E.2d 92 (1997), citing *Hamm v. S.C. Pub. Serv. Comm'n*, 309 S.C. 282, 422 S.E.2d 110 (1992). The test year provides a basis upon which a commission staff will conduct its audit of a company's books. Phillips, *The Regulation of Public Utilities* at 196. For rate-making purposes, only just and reasonable expenses are allowed; only used and useful property (with certain exceptions) is permitted in the

rate base. *Id.* The commission must have a basis for estimating future revenue requirements. *Id.*

The Commission concludes that the appropriate test year to use in the instant proceeding is the twelve-month period ending December 31, 2002. No party contested the use of that test year as proposed by Cox in its Application. To the contrary, all witnesses relied upon that test year period in presenting their evidence.

3. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 3

In its Application, Cox did not specify or propose a particular rate setting methodology. However, in its Application, Cox did identify net depreciable property consisting of lines and lagoon of \$89,130. Application, Exhibit 5.

“The Public Service Commission has wide latitude to determine an appropriate rate-setting methodology.” *Heater of Seabrook v. Public Serv. Comm’n of South Carolina*, 324 S.C. 56, 64, 478 S.E. 2d 826, 830 (1996). South Carolina law does not require the Commission to use any particular price-setting methodology. *Id.* S. C. Code Ann. Section 58-5-240 (H) (Supp. 2003) directs the Commission to specify an allowable operating margin in all water and wastewater orders. However, “that directive does not mean that the operating margin methodology must be used in determining a fair rate of return.” *Id.* Operating margin “is less appropriate for utilities that have large rate bases and need to earn a rate of return sufficient to obtain the necessary equity and debt capital that a larger utility needs for sound operation.” *Id.* According to the Application, Cox’s per books total rate base, or net depreciable property, is \$89,130. Application, Exhibit 5.

The Staff in its exhibits and testimonies presented information regarding the operating margins for per books test year, test year as adjusted, and after the proposed increase. *See* Hearing Exhibit No. 2, p. 8 (Utilities Department Exhibit No. 5) and Hearing Exhibit No. 3, p. i (Synopsis) and p.4 (Audit Exhibit A). The Commission Staff also presented various alternative operating margins and associated revenue requirements for those operating margins. Typically, [the operating margin] methodology is appropriate where a utility's rate base has been substantially reduced by customer donations, tap fees, contributions in aid of construction, and book values in excess of investment. *Heater, supra*. Due to Cox's reduced rate base as demonstrated by Cox's Application showing net depreciable property of \$89,130 and the fact that Cox has not presented evidence of a rate base of sufficient size on which to utilize return on rate base as a price setting methodology, the Commission finds that operating margin is the appropriate rate-setting methodology to use in this case.

4. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 4

The evidence for the finding concerning the amount of the requested rate increase is contained in the Application filed by Cox and in the testimony and exhibits of Staff witness Richardson. The Application of Cox indicates that it is seeking additional revenues of \$26,256 from the proposed rates for its sewer operations. Application of Cox, Exhibit 4. Additionally, Staff witness Richardson testified that under the rates proposed in the Application Cox would see an increase in revenues of \$26,916 to operate the existing system or an increase of \$82,443 under the alternative plan to construct a new

wastewater treatment plant. Richardson, Prefiled Testimony, p. 2, ll. 25 - 31, Hearing Exhibit No. 2, p. 2 (Utilities Department Exhibit No. 2).

The Staff's increase in revenues reflects Staff's adjustment to test year revenues of \$(410). Staff proposed an adjustment to test year revenues in order to annualize service revenues based on year-end customers at the presently approved rate of \$14.85. Cox did not annualize test year revenues for sewer service but utilized total operating revenues which included miscellaneous income of reconnect charges. We adopt Staff's calculation of the increase in revenues because the Staff's calculation appropriately reflects annualized charges for sewer service without any additional miscellaneous charges, such as reconnect charges. Staff's adjustment to annualize the rates recognizes revenues for sewer service for a full year under the approved rates. We find that the annualized revenues as calculated by the Staff to be appropriate to use in establishing rates. Therefore, the Commission finds that Cox is seeking an increase in its revenues of \$26,916.

5. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 5

Cox's Application shows per book test year total operating revenues of \$6,541. Application, Exhibit 4. Staff also calculated per book test year operating revenues of \$6,541, of which \$6,291 is attributable to service revenues and \$250 is miscellaneous income from reconnect charges. Hearing Exhibit No. 3, p. 4 (Audit Exhibit A). Therefore, the only evidence before the Commission on per book total operating revenues is the \$6,541 as shown in the Company's Application and in the Staff's report in Hearing Exhibit No. 3.

Staff proposed an adjustment to per book operating revenues to annualize service revenues using year-end customers. Hearing Exhibit No. 3, p.7 (Audit Exhibit A-1, p. 1 of 5). Staff's proposed adjustment results in a reduction to per book operating revenues of \$(410). *Id.* and Hearing Exhibit No. 3, p.6 (Audit Exhibit A). Cox did not annualize test year revenues but reported actual test year revenues, including revenues from sources other than sewer service. We find the adjustment proposed by Staff to be reasonable and adopt the Staff's adjustment. Annualizing the revenues is appropriate because annualizing the revenues has the effect of recognizing all service revenues applicable to the test year. Here the revenues were annualized at the end of the test year. In the instant case, the number of customers did not change during the test year, so there is no difference in the revenues based on when the annualization occurred. By annualizing operating revenues at year end, Staff gives effect for operating revenues for the number of customers at year end which we find to be an appropriate and acceptable method in this case. Therefore, we approve the Staff's adjustment and find the appropriate operating revenues for the test year after accounting and pro forma adjustments are \$6,131.

6. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 6

The parties offered certain adjustments affecting operating expenses for the test year. Cox witness Ellison and Staff witness Gunter offered testimony and exhibits detailing adjustments proposed by the parties. *See* Hearing Exhibit No. 3 (Exhibits sponsored by Staff witness Gunter) and Cox's Application, Exhibit 4. This Section will address the adjustments offered which affect operating expenses.

(A) Plant Maintenance; Chemicals and Supplies:

(1) Position of Cox: Cox proposed an adjustment to plant maintenance of \$8,280 and to Chemicals & Supplies of \$310. Application, Exhibit 4. In support of this adjustment, Witness Ellison testified that \$8,280 will be required for plant maintenance. Prefiled Testimony, P. 8, ll. 4-5.

(2) Position of Staff: Staff did not propose an adjustment for these items. Staff Witness Gunter stated that it did not allow for the proposed adjustment because the interconnection with the Town of Williamston had not been made and thus the adjustment did not represent a known and measurable change to test year operations. Staff's exhibits reflect that Cox proposed the adjustment to Operation & Maintenance Expenses ("O&M") for the monthly treatment and transportation fees in the event that Cox connects to the Town of Williamston's sewer system. Gunter, Prefiled Testimony, p.13, l. 19 - p.14, l. 2; Hearing Exhibit No. 3, p. 7 (Audit Exhibit A-1, p. 1 of 5).

(3) Decision of the Commission: From the evidence presented at the hearing, the Commission is aware that the Town of Williamston has not agreed to let Cox connect to the town sewer system nor does it appear that Williamston will allow Cox to connect to the town's sewer system. According to Mayor Clardy, Williamston does not intend to allow Cox to connect to Williamston's sewer system.

Further, it is not clear upon what basis Cox has proposed its adjustments. Apparently, Cox is using the annual transportation charge it anticipates paying to Anderson County should the connection to the Town of Williamston be made. In

addition, it appears that Cox is including in its adjustment the treatment charge from the Town of Williamston of \$700.00 per month. *See Application, Exhibit 8(b).*

Upon consideration of this adjustment, the Commission finds that the Staff position with respect to the proposed adjustment for Plant Maintenance and Chemicals & Supplies is correct. Because there is no evidence that Cox will be allowed to connect to Williamston's sewer system, Staff appropriately determined that the proposed adjustments do not reflect a known and measurable change. The Commission is guided in its decision by the case of *Heater of Seabrook, Inc. v. Public Service Commission of South Carolina*, 324 S.C. 56, 478 S.E.2d 826 (1996), in which the Supreme Court of South Carolina stated "[w]hen calculating expenses in rate cases, Commission should use only test year data and known and measurable changes occurring after the test year." In the instant case, Cox's proposed adjustments are not a known and measurable change and cannot be allowed. As the Mayor of Williamston stated that there is no plan to allow Cox to connect to Williamston's sewer system there is no known change from test year conditions which would require an adjustment for treatment and transportation fees.

(B) Office Supplies:

(1) Position of Cox: Cox proposed an adjustment of \$150 to adjust office supply expenses for estimated increases to this expense account. *Application, Exhibit 4.*

(2) Position of Staff: The Staff did not recommend this adjustment because Cox could not provide any support for the proposed adjustment. *Gunter, Prefiled Testimony, p. 15, ll. 8-12; Hearing Exhibit No. 3, p. 3 (Audit Exhibit A-1, p. 2 of 5).*

(3) Decision of the Commission: The Commission finds the Staff position on this adjustment reasonable and adopts the Staff position. Adjustments to expenses must be based upon test year data and known and measurable changes occurring after the test year. As Cox did not provide any justification or support for an increase in this expense category, there is no basis on which the Commission should adopt this adjustment.

(C) Legal and Professional Fees:

(1) Position of Cox: Cox proposed an adjustment of \$116,507, amortized over three years, for rate case expenses for legal and accounting fees of \$17,000 and \$99,507 for debts incurred for engineering reports. Application, Exhibit 4.

(2) Position of Staff: The Staff reported that Cox proposed to include its long-term debt of \$99,507 as of December 31, 2002, in operating expenses. Gunter, Prefiled Testimony, p. 15, ll. 12-21; Hearing Exhibit No. 3, p. 8 (Audit Exhibit A-1, p. 2 of 5). According to Staff, this debt included loans from Ellison and Ellison Partnership, and those loans were used to meet operating expense requirements. *Id.* While Staff did not allow for this proposed adjustment, Staff did include annualized interest expense based on interest synchronization in the computation of income taxes and in computing operating margin. *Id.*

Staff proposed to accept rate case expenses of \$19,000 and proposed to amortize the rate case expenses over a five year period. Gunter, Prefiled Testimony, p. 15, l. 22 – p. 16, l. 7, Hearing Exhibit No. 3, p. 9 (Audit Exhibit A-1, p. 2 of 5). To give effect to its proposal, Staff made an adjustment to increase expenses by \$3,800. *Id.* Staff indicated

that it proposed an amortization period of five years to reflect the time that Ellison has owned the utility without seeking a rate increase. *Id.*

(3) Decision of the Commission: The Commission finds that the Staff's treatment of these items is appropriate and should be adopted. Cox indicates in its Application that its proposed adjustment is amortized over three years. *See* Application, Exhibit 4, footnote 2. However, the schedule in the Application indicates that the entire amount of the long-term debt and the rate case expenses are included in operating expenses. *See* Application, Exhibit 4.

With regard to the inclusion of the long term debt in operating expenses, the Commission cannot approve of long term debt being expensed as proposed by Cox. Long term debt is ordinarily not an appropriate expense item. Long term debt is an account that appears on the balance sheet of a utility; long term debt is not included on the income statement of a utility because it is not an expense item. Long term debt represents a liability to a utility until it is repaid to the party from which it was borrowed. Further, if the proceeds of long term debt are used to fund an expense item, then such expense item would be classified in the proper category on the income statement when the expense is paid.

Cox indicates in its Application that it incurred debts for engineering reports in the amount of \$99,507. However, there is no indication as to whether this debt and those engineering reports were incurred during the test year or not. Further, questions are raised as to whether the costs associated with the engineering reports should be expensed or capitalized. A good argument can be made that expenses associated with engineering

reports which are preliminary to capital improvements, such as a lift station and connection to a regional sewer system for treatment, should be capitalized rather than expensed. Therefore, the Commission finds the Staff appropriately refused to include this proposed adjustment in test year expenses.

While Staff did not allow the amount of the long-term debt into test year expenses upon which rates will be established, Staff did allow annualized interest expense of that long-term debt based on interest synchronization in the computation of income taxes and in computing operating margin. The Commission finds Staff's proposed treatment appropriate as this treatment allows for coverage of interest on the long-term debt.

With regard to the rate case expenses allowed by the Staff in its proposed adjustment, the Commission approves rate case expenses of \$19,000 and the amortization period of five years proposed by Staff. The Commission finds that rate case expenses are a proper item for inclusion in rates. Ideally, the amortization period for the recovery of the rate case expenses should allow for recovery of those expenses between rate cases. However, it is impossible to foresee what the future holds and to state with any certainty when the Company may need to return to this Commission for rate adjustment. The current owners acquired the utility in 1996, and this is the first time the present owners have sought rate relief.

In *Hamm v. South Carolina Public Service Commission*, 309 S.C. 282, 422 S.E.2d 110 (1992), the Supreme Court of South Carolina stated

Adjustments for known and measurable changes in expenses may be necessary in order that the resulting rates reflect the actual rate base, net operating income, and cost of capital. The adjustments are within the discretion of the

Commission and must be known and measurable within a degree of reasonable certainty. Absolute precision, however, is not required.

(citing *Michaelson v. New England Tel. & Tel. Co.*, 121 R.I. 722, 404 A.2d 799 (1979)).

While the Commission cannot state with absolute precision when the Company will return for another rate proceeding, the Commission must provide a sufficient amortization period under which Cox may recover its expenses. The Commission finds a five year amortization period reasonable in light of the fact that the owner has owned the utility for eight years without seeking rate relief.

(D) Interest Expense:

(1) Position of Cox: Cox did not propose an adjustment to reclassify interest charges.

(2) Position of Staff: Staff proposed an adjustment of \$(657) to reclassify interest charges to below-the-line for ratemaking purposes. Gunter, Prefiled Testimony, p. 14, l. 3 – p. 15, l. 3; Hearing Exhibit No. 3, p. 7 (Audit Exhibit A-1, p. 1 of 5). Staff included annualized interest expense in the booking of income tax expense and in the computation of the operating margin based on interest synchronization. *Id.* Because Cox has a capital structure consisting of negative equity and 100% debt, Staff proposed a hypothetical 50% debt/50% equity capital structure. *Id.* Staff asserts that its proposed hypothetical capital structure is more representative of an ideal capital structure for a wastewater utility whose capital structure is “skewed” by debt or equity. *Id.* Cox’s Net Plant in Service at the end of the test year has been allocated based on the 50% debt/50% equity hypothetical capital structure and using Cox’s embedded cost of debt. *Id.* This formula

produces annualized interest which is deductible for calculating income taxes for ratemaking purposes. *Id.* Staff used this annualized interest in calculating the operating margin, thereby, allowing coverage of interest expense associated with the debt portion of Plant in Service. *Id.*

(3) Decision of the Commission: The Commission recognizes that an “above-the-line” expense, or revenue, item is one that is included in the rates, while a “below-the-line” item affects only a company’s equity accounts rather than operating accounts. Interest expense is properly a below-the-line expense for ratemaking purposes for a utility where a return on equity is set by a commission, as is the case when using return on rate base methodology to set rates. When operating margin methodology is used as the methodology on which to set rates, debt coverage is not part of the calculation unless a commission expressly allows for debt coverage. Under the operating margin methodology, the utility will not receive debt coverage unless debt coverage is expressly allowed.

Here, the Staff proposed to allow for debt coverage by deducting interest expense in the Operating Margin calculation. We find this adjustment reasonable and approve the deduction of interest expense from the Operating Margin calculation in order to afford Cox with debt coverage.

(E) Interest Expense:

(1) Position of Cox: Cox proposed to adjust expenses by \$1,200 for estimated interest expense to be incurred on funds borrowed to construct the lift station for the interconnection with Williamston. Application, Exhibit 4.

(2) Position of Staff: Staff included annualized interest in the computation of the operating margin based on interest synchronization as discussed above with regard to the adjustment associated with section “(D) Interest Expense.” Gunter, Prefiled Testimony, p. 15, ll. 4-8; Hearing Exhibit No. 3, p. 8 (Audit Exhibit A-1, p. 2 of 5).

(3) Decision of the Commission: The Commission finds that the adjustment of Cox should be denied and the position of the Staff with regard to this adjustment adopted. The lift station has not been built, and no funds have yet been borrowed for construction of a lift station. Therefore, this item does not meet the known and measurable standard and cannot be approved. As noted above, the Supreme Court of South Carolina stated in the *Heater* case, *supra.*, that “[w]hen calculating expenses in rate cases, [the] Commission should use only test year data and known and measurable changes occurring after the test year.”

(F) Depreciation:

(1) Position of Cox: Cox proposed an adjustment to Depreciation Expense of \$5,500. Application, Exhibit 4. Mr. Ellison stated in his testimony that Depreciation Expense “doubles from \$5,132 [during the test year] to \$10,632 [after the proposed increase].” Ellison, Prefiled Testimony, p. 8, l. 9.

(2) Position of Staff: Staff did not accept Cox’s proposed adjustment to Depreciation Expense. According to the Staff, Cox proposed to annualize Depreciation Expense for the cost of constructing the lift station and new lines to transport sewage to the Town of Williamston. Gunter, Prefiled Testimony, p. 16, ll. 13-22; Hearing Exhibit No. 3, p. 10 (Audit Exhibit A-1, p. 4 of 5). According to Staff, Cox used estimated costs

of \$100,000 and an accelerated recovery period of 15 years to compute the proposed Depreciation Expense adjustment of \$5,500. According to Staff, Cox also included projected increases in O&M Expenses of \$1,000; in General and Administrative Expenses of \$500; and Taxes Other than Income of \$449. *Id.* Staff refused to accept Cox's adjustments because the interconnection has not been made and the adjustments are not a known and measurable change. *Id.*

The Staff did propose an adjustment of \$(2,059) to Depreciation Expense in order to annualize Depreciation Expense on the existing year end Plant in Service. Gunter, Prefiled Testimony, p. 16, ll. 7-13; Hearing Exhibit No. 3, p. 9 (Audit Exhibit A-1, p. 3 of 5). Staff's adjustment used a depreciation rate of 2.5%. Staff reports that Cox utilized an accelerated depreciation method to compute the per books Depreciation Expense. *Id.*

(3) Decision of the Commission: The Commission finds that Staff properly accounted for Depreciation Expense and hereby approves of the Staff's treatment of adjustments to Depreciation Expense. The Commission agrees with the Staff that no Depreciation Expense should be allowed for estimated costs of a lift station that has not been built because the adjustment does not represent a known and measurable change. The lift station has not been built, and it is not known if the lift station will ever be built. Therefore, there should be no Depreciation Expense allowed.

The Commission also finds that the Staff properly annualized the Depreciation Expense on existing year end Plant in Service. The Staff's adjustment utilizes straight line depreciation based on a forty year life in service of the plant. Cox's per book numbers reflect accelerated depreciation. Cox has made no showing that accelerated

depreciation for Plant in Service is appropriate. The Commission finds that the Staff's adjustment utilizing a forty year useful life of year end Plant in Service is appropriate. The Commission recognizes that utility plant has a long useful life, and absent a showing as to why accelerated depreciation is required for Plant in Service, the Commission has no basis on which to approve accelerated depreciation for Plant in Service.

Summary of Adopted Adjustments to Expenses:

The total effect of the adjustments to test year expenses adopted herein do not change test year Operating and Maintenance Expenses; reduce test year General and Administrative Expenses by \$(657); increase Depreciation and Amortization Expenses by \$1,741; and decrease Taxes Other Than Income by \$(3). The net effect of the adjustments adopted herein on Total Operating Expenses is to increase test year Total Operating Expenses by \$1,081. Thus, Total Operating Expenses for the test year under present rates and after accounting and pro forma adjustments and adjustments for known and measurable out-of-test year occurrences are \$26,761.

7. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 7

The operating margin for the test year under present rates and after accounting and pro forma adjustments approved herein is (380.98)%. The calculation for the operating margin using the test year as adjusted operating revenues of \$6,131 as approved herein and test year as adjusted operating expenses of \$26,761 as approved herein was provided by Staff witness Gunter. Gunter, Prefiled Testimony, p. 8, l. 20 – p. 9, l. 4: Hearing Exhibit No. 3, p. 4 (Audit Exhibit A). According to Mr. Gunter, adjusted test year operations result in a "Net Loss for Return" of \$(20,630). Using the adjusted "Net

Loss for Return” and the herein approved adjusted interest expense of \$2,728, Staff calculated a negative operating margin of (380.98)%.

The following table indicates (1) the Company’s gross revenues for the test year after adjustments approved herein, under the presently approved rate schedules; (2) the Company’s operating expenses for the test year after accounting and pro forma adjustments and adjustments for known and measurable out-of-test year occurrences approved herein; and (3) the operating margin under the presently approved schedules for the test year:

TABLE A

	<u>Before Increase</u>
Operating Revenues	\$ 6,131
Operating Expenses	<u>26,761</u>
Net Operating Income/(Loss)	\$ (20,630)
 NET INCOME/(LOSS) FOR RETURN	 <u>\$ (20,630)</u>
 Operating Margin (Including Interest Expense of \$2,728)	 <u><u>(380.98)%</u></u>

8. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT 8

Based upon Finding of Fact 7, we find that Cox has demonstrated a need for rate relief in the form of a rate increase. Adjusted test year operations reveal an operating margin of (380.98)%. Clearly, expenses of operating the system outweigh the revenues of the system. As noted earlier in this Order, public utilities are entitled to cover all allowable operating costs and to have an opportunity to earn a “fair” rate of return. Charles F. Phillips, Jr., *The Regulation of Public Utilities*, (1993) at 171. Public utilities are permitted to establish rates that will cover their revenue requirements. *Id.*

9. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT 9

The rates requested and proposed by Cox produce an operating margin of 8.16% when applied to adjusted test year operations. Information concerning the effect of the proposed rates when applied to as adjusted test year operations of Cox is found in the Staff's exhibits introduced during the hearing. Mr. Gunter calculated that the rates proposed by Cox, which would produce additional revenues of \$26,916 (*See Finding of Fact 4*), result in an operating margin, including interest expense as approved herein, of 8.16%. Hearing Exhibit No. 3, p. 4 (Audit Exhibit A).

10. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT 10

The Commission finds that an 8.16% operating margin is not unreasonable for a utility the size of Cox; however, the Commission also finds that the per customer increase to obtain the 8.16% operating margin is quite large and constitutes a tremendous percentage increase over present rates. Accordingly, in order to lessen the impact to the customers of a one time rate increase which allows Cox to move from a (380.98)% operating margin to an 8.16% operating margin, the Commission further finds that it is appropriate to phase-in the rate increase.

In the present case, the Commission is being requested to increase rates so that Cox may continue to provide sewer service to its 33 customers. DHEC has ordered Cox to eliminate its wastewater treatment plant pursuant to a consent order. Cox has explored the possibility of a tie-in with the Town of Williamston's sewer system; however, the Town of Williamston is unwilling to approve the connection of Cox's system to the town's system. In order to continue to serve its customers, Cox requires a significant

increase in rates. Even without the prospect of significant costs associated with meeting DHEC's requirements, Cox demonstrated that it is in need of rate relief. See Finding of Fact 8. The Commission recognizes that Cox faces increased costs in continuing to serve its customers. Cox requires substantial increased revenues just to meet day-to-day operations, without considering the costs associated with the necessary capital improvements required on the system.

The Commission is not without sympathy for the customers. The Commission recognizes that the customers are being requested to pay a sizeable rate for sewer service. However, the documentation provided in this case, along with the standards of ratemaking, substantiate the need for such a sizeable rate increase. As evidenced by the financial information of Cox presented during the hearing, Cox presently has a bleak financial status. The utility is operating in the negative. Without an influx of revenues, the viability of Cox could certainly be in question. The Commission must allow for the utility to be viable in order to provide the services to the public.

With only 33 customers, Cox does not have a sufficient customer base which would allow Cox to recognize any economies of scale. Even though Cox is small and serves a very small number of customers, the services that Cox provides are no less important than the services provided by a much larger utility. The difference is that a larger utility can recognize certain economies of scale in various areas, thereby being able to serve customers at less cost per unit.

The Commission recognizes that it must consider the value of the services provided as well as recognize that there is a limit to what the public can bear. The

Commission must strike a balance between the revenue needs of the utility and the value of the service to the public. While the instant case involves a substantial increase, the loss of the services provided by Cox could have a more detrimental effect on the public. The record demonstrates that the Town of Williamston does not intend to extend its services to the subdivision served by Cox, that a tie-in with Anderson County is much too great a distance, and that DHEC will not allow these customers to be served with septic tanks. The loss of Cox as a sewer utility would certainly be detrimental to the segment of the public that Cox serves.

Cox has demonstrated a need for the rate increase without considering the fact that Cox is facing large capital outlays in order to meet DHEC's requirements. As evidenced by the testimony of Cox's president, Mr. Ellison, Cox will be seeking loans in order to finance the capital projects needed to meet DHEC's requirements. Thus, the Commission must consider that Cox will need to show financial viability and an ability to repay debt in order to obtain necessary financing for the capital projects. However, while keeping in mind the financial status and viability of Cox, the Commission does not ignore the impact of rate increases on the public. As a policy matter, the Commission concludes that it must devise a rate plan which will provide needed revenues to Cox but also lessen the impact of the increase on the customers. To balance these competing interests, the Commission determines that a phase-in of the rate increase is appropriate.

A phase-in of rates may be allowed to lessen the "rate shock" of a large one-time rate increase. While a phase-in generally occurs when a large ticket item is being placed into rate base, the Commission recognizes that Cox is requiring this large rate increase to

prepare for a significant capital outlay. A phase-in of rates is not a new concept in South Carolina. A phase-in of rates was involved in the case of *Hamm v. South Carolina Public Service Commission*, 294 S.C. 320, 364 S.E. 2d 455 (1988), when South Carolina Electric & Gas Company brought the V.C. Summer Nuclear Station into rate base. While Cox's rates are being set using operating margin methodology rather than rate of return methodology, the large one-time rate increase would be the same for the customers regardless of the methodology used to set the rates. Therefore, the Commission finds that the public interest requires a phase-in of this rate increase in order to lessen the impact of the rate increase on the customers.

11. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT 11

According to the record, Cox has explored the possibility of a tie-in with the Town of Williamston's sewer system. However, Mayor Clardy's testimony would indicate that such a tie-in between Cox and the Town of Williamston will not occur. DHEC witness Proctor testified that Cox's present customers cannot install septic tanks. Thus, it appears that Cox has no present alternative but to construct a new wastewater treatment plant.

A wastewater treatment plant is a long-lived facility and would usually be funded through long-term debt and/or retained earnings. Cox has no retained earnings as Cox has operated at a loss for each of the years 1997 – 2002. *See* Application, Exhibit 3(b). Not only is a wastewater treatment plant a long-lived facility, it is also the type of facility that will require some time to plan and build. Before actual construction can begin, engineering reports must be made, plans drawn, and the planning must be approved by

DHEC. Then the construction itself will take some time. Conservatively, we estimate that the planning and construction will take 18 to 24 months.

Therefore, we find that the phase-in of the rates should be done in three phases over a three year period. The first phase is to be implemented at the beginning of the first year with the issuance of this order, the second phase is to be implemented in approximately twelve months at the beginning of the second year provided certain milestones are reached by Cox in coming into compliance with DHEC's requirements, and the third phase will be implemented at the beginning of the third year in approximately 24 months provided that Cox has met further milestones of meeting DHEC's compliance requirements.

As for the amount of the phase-in of the rates, we approve an increase of \$15.65 for the first part of the phase-in, an additional increase of \$22.66 for the second part of the phase-in, and an additional increase of \$29.66 for the third part of the phase-in. In order to implement the next successive part of the phase-in, Cox must meet certain milestones in the planning and construction process of its upgrades to meet DHEC's compliance requirements.

Prior to implementing the second part of the phase-in, Cox must present to the Commission either (1) a plan approved by DHEC which sets forth the manner in which Cox will bring its system into compliance with DHEC's standards and requirements, including a construction timetable, or (2) a plan approved by DHEC under which Cox

will become part of a regional system.¹ Cox must report on the investigations that it conducts on choosing the plan it undertakes, and Cox shall include in its report information on investigations into various treatment alternatives, including lagoon, spray application, and various other treatment alternatives. Cox must report on the various alternatives and must report to the Commission prior to actually beginning construction of any treatment facility, upgrade, or regional tie-in. Cox shall submit the herein required compliance plan and report prior to the expiration of one year from the date of this Order. Further, the second part of the phase-in must not be implemented by Cox until this Commission has received the plan as described herein and has issued an order stating that Cox may implement the second part of the phase-in.

The third part of the phase-in must not be implemented until Cox files with this Commission a report detailing the status of the upgrades or connection with a regional system and receives an order from this Commission stating that Cox may implement the third part of the phase-in. This report must be filed with the Commission prior to the expiration of one year following the date of the order allowing the second part of the phase-in to be implemented. The report required before implementing the third part of the phase-in shall detail to the Commission: (1) the status of the upgrades or tie-in with a regional system at the time of the report, (2) the time until completion of the upgrades or tie-in with a regional system (if not already completed), (3) the reasons for upgrades or tie-in not being completed, (4) the costs already expended on the upgrades or tie-in, (5)

¹ The Commission cautions Cox that approval must also be obtained from this Commission before the utility could become part of a regional system. *See* 26 S.C. Code Regs. 103-504 (supp. 2003).

the estimated costs to complete the upgrades or tie-in, and (6) any other issues which the Commission may order Cox to address in the report.

The Commission recognizes that Cox will need to provide any plans for upgrades to DHEC for approval. We also recognize that obtaining approval from DHEC could take some time and that actually implementing the plan will take more time. However, we caution and advise Cox that this matter of implementing a plan to bring the utility into compliance must be considered a priority.

12. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 12

The Commission must design rates which will allow Cox to improve its financial position by moving from an operating margin of (380.98)% to an ultimate operating margin of 8.16% following a three part phase-in of rates. To achieve an ultimate operating margin of 8.16% following a three part phase-in of rates, the Commission approves an increase of rates and intermediate operating margins as follows: (1) the first part of the phase-in shall be an increase in rates for sewer service of \$15.65 per month with an approved operating margin of (139.61)%; (2) the second part of the phase-in shall be an increase in rates of sewer service of an additional \$22.66 per month with an approved operating margin of (39.01)%; and the third part of the phase-in shall be an increase in rates for sewer service of an additional \$29.66 per month with an approved operating margin of 8.16%.

In designing the phase-in of the rates, the Commission recognizes that the phase-in increases with each installment. The purpose of the phase-in of rates is to lessen the impact of the ultimate rate increase on the customers yet allow the utility to receive

sufficient revenues to maintain viability and improve its financial position. These two considerations are at odds with each other. However, the Commission finds that the public interest requires phased-in rates in order to lessen the impact of such a dramatic increase in rates. Further, the Commission designs the phase-in in increasing increments in order to allow the customers the opportunity to plan for each part of the phase-in. We find that the public interest requires that the customers be provided with time to plan for these phased-in increases; thus the reason for the increasing increments of the phase-in.

The first part of the phase-in more than doubles the present monthly service rate paid by the customers, yet produces sufficient revenues to increase the operating margin from (380.98)% to (139.61)%. The second part of the phase-in constitutes almost a third of the requested increase and further increases the operating margin from (139.61)% to (39.01)%. The third part of the phase-in is the largest increase in rates for the consumer with this part of the phase-in compromising 43% of the requested rate increase. However, the customers have two years to plan for this significant increase. Public interest dictates that we allow the customers the time to plan and prepare for such a significant increase in their monthly rates.

13. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACTS 13 AND 14

Using the Operating Revenues and Operating Expenses approved herein, the Commission is able to calculate the income requirement for the utility associated with the herein approved phase-in of rates. Operating Margin is achieved by dividing net operating income for return minus interest expense by total operating revenues. Thus the revenue requirement for Cox under operating margin methodology found appropriate in

this Order and using the adjusted operating revenues and operating expenses approved herein is calculated as \$12,328 for the opportunity to achieve the (139.61)% operating margin found reasonable for the first year of the phase-in of rates; \$21,301 for the opportunity to achieve the (39.01)% operating margin found reasonable for the second year of the phase-in; and \$33,047 for the opportunity to achieve the 8.16% operating margin found reasonable for the final part of the phase-in.

In order for Cox to achieve the requisite income requirement to have the opportunity to earn the herein approved operating margins under the phase-in of the rates, Cox must be allowed additional revenues of \$6,197 under the first part of the phase-in; additional revenues of \$15,170 under the second part of the phase-in; and \$26,916 under the third part of the phase-in.²

14. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 15

S.C. Code Ann. Section 5-240(H) (Supp. 2003) provides, in part, that “[t]he [C]ommission shall specify an allowable operating margin in all water and wastewater orders.” Based upon the operating margins approved herein for the phase-in of rates and the revenues and expenses also approved herein, the corresponding operating margins for the phase-in of rates is calculated to be (139.61)% for the first part of the phase-in, (39.01)% for the second part of the phase-in, and 8.16% for the third, and last, part of the phase-in. The following Tables reflect these approved operating margins:

² The additional revenues stated are revenues in addition to as adjusted test year Operating Revenues.

TABLE B

	<u>After 1st Phase of Increase</u>
Operating Revenues	\$ 12,328
Operating Expenses	<u>26,811</u>
Net Operating Income/(Loss)	\$ (14,483)
Customer Growth	<u>0</u>
NET INCOME/(LOSS) FOR RETURN	<u>\$ (14,483)</u>
Operating Margin (Including Interest Expense of \$2,728)	<u>(139.61)%</u>

TABLE C

	<u>After 2nd Phase of Increase</u>
Operating Revenues	\$ 21,301
Operating Expenses	<u>26,883</u>
Net Operating Income/(Loss)	\$ (5,582)
Customer Growth	<u>0</u>
NET INCOME/(LOSS) FOR RETURN	<u>\$ (5,582)</u>
Operating Margin (Including Interest Expense of \$2,728)	<u>(39.01)%</u>

TABLE D

	<u>After 3rd Phase of Increase</u>
Operating Revenues	\$ 33,047
Operating Expenses	<u>27,621</u>
Net Operating Income/(Loss)	\$ 5,426
Customer Growth	<u>0</u>
NET INCOME/(LOSS) FOR RETURN	<u>\$ 5,426</u>
Operating Margin (Including Interest Expense of \$2,728)	<u>8.16%</u>

15. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT 15

The Commission finds that Cox should begin maintaining its books and records in accordance with the NARUC Uniform System of Accounts for Class C Sewer Utilities, as adopted by this Commission. Staff witness Gunter testified that Cox is not keeping its books in accordance with the NARUC chart of accounts. Accordingly, Mr. Gunter recommended that Cox begin recording its revenues, expenses and other transactions using the NARUC Uniform System of Accounts. We find that Cox should maintain its books and records using the NARUC Uniform System of Accounts as required by 26 S.C. Code Regs. 103-517 (Supp. 2003). Further, we advise Cox to consult with the Staff if guidance is needed concerning the requirements of the NARUC Uniform System of Accounts.

IV. CONCLUSIONS OF LAW

Based upon the Findings of Fact as contained herein and the record of the instant proceeding, the Commission makes the following Conclusions of Law:³

1. Operating margin is the appropriate guide for the Commission to use in determining the lawfulness of the rates of Cox and in fixing of just and reasonable rates for Cox to charge its customers in South Carolina.

2. A fair operating margin for the sewer operations of Cox in South Carolina is (139.61)% following the first part of the phase-in; (39.01)% following the second part of the phase-in; and 8.16% following the third part of the phase-in.

³ The Commission's analyses which give rise to the Conclusions of Law are contained in the discussions of Section III of this Order.

3. For the test year of December 31, 2002, the appropriate operating revenues, under present rates and as adjusted in this Order, are \$6,131, and the appropriate operating expenses, under present rates and as adjusted in this Order, are \$26,761.

4. Using the operating margins found to be fair and reasonable in this Order, the revenue requirements for Cox are \$12,328 after the first part of the phase-in; \$21,301 after the second part of the phase-in; and \$33,047 after the third part of the phase-in.

5. In order for Cox to have an opportunity to earn the operating margins found reasonable and approved in this Order and to meet the revenue requirements, Cox must be allowed additional revenues of \$6,197 under the first part of the phase-in; additional revenues of \$15,170 under the second part of the phase-in; and \$26,916 under the third part of the phase-in.

6. The rates approved in this Order are designed to be just and reasonable without undue discrimination and are also designed to meet the revenue requirements of the Company.

7. Based on the adjustments approved herein and the increase in rates approved herein, the appropriate operating margins for Cox on its South Carolina operations are (139.61)% for the first phase, (39.01)% for the second phase, and 8.16% for the third phase.

8. Cox shall maintain its books and records in accordance with the NARUC Uniform System of Accounts for Class C Sewer Utilities, as adopted by this Commission and as required by 26 S.C. Code Regs. 103-517 (Supp. 2003).

IT IS THEREFORE ORDERED THAT:

1. Cox is granted an increase in rates and charges as provided herein for its sewer operations in South Carolina.

2. The schedule of rates and charges attached hereto as Appendix A are hereby approved for service rendered on or after the date of this Order. Further, the schedules are deemed to be filed with the Commission pursuant to S.C. Code Ann. Section 58-5-240 (Supp. 2003).

3. Should the schedules approved herein and attached hereto as Appendix A not be placed in effect until three (3) months from the effective date of this Order, the schedules shall not be charged without written permission from the Commission.

4. Cox shall maintain its books and records for sewer operations in accordance with the NARUC Uniform System of Accounts for Class C Water and Sewer Utilities, as adopted by this Commission.

5. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:



Mignon L. Clyburn, Chairman

ATTEST:



Bruce F. Duke, Executive Director

(SEAL)

APPENDIX A

J. C. Cox Utilities, Inc.
35 Lester Road
Williamston, S.C. 29072

Filed pursuant to Docket No. 2003-277-S – Order No. 2004-101
Effective Date of Order: March 11, 2004

RATES FOR SEWERAGE SERVICE:

Phase 1 rates may be implemented on or after March 11, 2004.
(Successive phases of Phase 2 and Phase 3 may not be implemented by the utility until the utility provides the Commission with reports as required by Order No. 2004-101 and the Commission issues an appropriate order approving implementation of successive phase.)

PHASE 1 -	\$30.50 per month
PHASE 2 -	\$53.16 per month
PHASE 3 -	\$82.82 per month